

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

SP-02 STR-01 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 SS-15

NSC-05 L-02 H-01 DODE-00 PA-01 USIA-06 PRS-01 AGR-05

SAJ-01 FEAE-00 INT-05 /087 W
----- 056278

P R 131800Z DEC 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 6822

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 19235

E.O. 11652: N/A

TAGS: ECON, ELAB, ENRG, GW

SUBJECT: CHANCELLOR SCHMIDT PRESENTS ECONOMIC PROGRAM
TO BUNDESTAG

REF: BONN 19162

BEGIN UNCLASSIFIED

1. SUMMARY: CHANCELLOR SCHMIDT PRESENTED THE BUNDESTAG
HIS GOVERNMENT'S NEW ECONOMIC PROGRAM INCORPORATING
DM 1.7 BILLION INEXPENDITURES
AIMED AT BOOSTING THE CONSTRUCTION INDUSTRY AND
ASSISTING THE UNEMPLOYED TO FIND JOBS. AN
INVESTMENT BONUS TO STIMULATE THE PRIVATE SECTOR WAS
ALSO PART OF THE PACKAGE OF MEASURES THAT, ON
BALANCE, COULD BE CLASSIFIED AS MODEST. MORE
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EXPANSIONARY IS THE PROJECTED 1975 BUDGETARY

DEFICIT OF OVER DM 50 BILLION. PASSAGE OF
IMPLEMENTING LEGISLATION IS PREDICTED FOR THE
END OF NEXT WEEK. END SUMMARY

2. DEC 13 CHANCELLOR SCHMIDT PRESENTED THE GOVERN-
MENT'S NEW ECONOMIC PROGRAM TO THE BUNDESTAG. IN
HIS HOUR-LONG SPEECH HE DESCRIBED THE PROGRAM'S
CONTENTS, WHICH ARE OUTLINED AS FOLLOWS:

A. AN INCREASE IN FEDERAL GOVERNMENT
EXPENDITURES OF DM 1.13 BILLION WHICH WILL BE
COMPOSED OF:

(1) DM 310 MILLION FOR ENERGY SUPPLY
IMPROVEMENT. INCLUDED UNDER THIS ARE DM 150 MILLION
FOR COAL MINING, DM 108 FOR LONG DISTANCE HEAT
TRANSMISSION, AND DM 50 MILLION COAL GASIFICATION.

(2) DM 280 MILLION FOR CONSTRUCTION OF
GOVERNMENT BUILDINGS.

(3) DM 115 MILLION FOR RAILROAD EQUIPMENT
ACQUISITION BY THE BUNDESBahn.

(4) DM 370 MILLION FOR RAILROAD FACILITY
AND HIGHWAY CONSTRUCTION.

(5) DM 45 MILLION FOR OTHER EQUIPMENT
TO BE PROCURED PRINCIPALLY BY THE BUNDESBahn.

B. TO ATTACK THE UNEMPLOYMENT PROBLEM (800,000
UNEMPLOYED ACCORDING TO NOVEMBER'S STATISTICS),
THE GOVERNMENT PROPOSES TO MAKE AVAILABLE DM 500
MILLION TO SUBSIDIZE EMPLOYERS WHO HIRE UNEMPLOYED
WORKERS BEFORE MAY 1, 1975 ON A PERMANENT BASIS.
THE SO-CALLED WAGE BONUS AMOUNTS TO 60 PERCENT OF GROSS
WAGES FOR A 6-MONTH PERIOD. IT IS ESTIMATED THAT
THIS WILL TAKE 90,000 UNEMPLOYED WORKERS OFF
THE STREET.

C. ANOTHER DM 100 MILLION "MOBILITY BONUS" IS SLATED
TO ASSIST UNEMPLOYED WORKERS WHO MUST MOVE TO
ANOTHER AREA TO FIND A JOB. IT IS ESTIMATED BY
THE GOVERNMENT THAT SOME 200,000 WORKERS WILL
BENEFIT FROM THIS PROGRAM.

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D. THE PERIOD OF ELIGIBILITY TO RECEIVE SHORT-TIME
WORKERS ALLOWANCES WILL BE EXTENDED FROM 12
TO 24 MONTHS.

E. FEDERALLY BUDGETED EXPENDITURES FOR 1975 WILL BE
ACCELERATED TO IMPACT IN THE FIRST HALF OF THE
YEAR.

F. THOUGH NOTHING NEW, THE EXPANSIVE EFFECT ON THE ECONOMY OF THE TAX REFORM AND CHILDREN'S ALLOWANCES WHICH WILL BE IMPLEMENTED NEXT YEAR WAS CITED. THE DM 14 BILLION INJECTION THAT THESE REPRESENT WAS EMPHASIZED.

G. NOTABLY LOW IN ORDER OF PRESENTATION BY THE CHANCELLOR, BUT CERTAINLY AMONG THE MOST IMPORTANT MEASURES, WAS THE 7.5 PERCENT INVESTMENT BONUS TO BE PAID FOR NEW INVESTMENTS CONTRACTED FOR BY THE PRIVATE SECTOR DURING THE PERIOD FROM NOVEMBER 30,

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1974 TO JUNE 30, 1975. CERTAIN ENERGY CONSERVATION RELATED INVESTMENTS WILL NOT BE SUBJECT TO THE TIME LIMITATION. IT IS THE GOVERNMENT'S OPINION

THAT THE BUDGETARY DEFICIT DERIVING FROM THE PAYMENT OF THIS BONUS WILL BE COMPENSATED FOR BY INCREASED TAX REVENUES EXPECTED FROM A REVIVAL OF THE ECONOMY.

H. A LIMITED DEPRECIATION ALLOWANCE LIBERALIZATION AIMED AT ASSISTING THE RESIDENTIAL CONSTRUCTION INDUSTRY.

I. AN ADDITIONAL DM 50 MILLION FOR COASTAL CONSTRUCTION WORKS, E.G. DIKES, ETC.

K. THE CHANCELLOR WELCOMED THE ANNOUNCED INTENTION LIMITED OFFICIAL USE

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OF THE BUNDESBANK, WITHIN THE LIMITATIONS OF MAINTAINING PRICE STABILITY, TO EXPAND CENTRAL BANK MONEY IN THE ECONOMY BY 8 PERCENT OVER NEXT YEAR. THIS DECISION, HE NOTED, WAS MADE IN CONSULTATION WITH THE FEDERAL GOVERNMENT.

3. THE DM 1.73 BILLION NEW GOVERNMENT EXPENDITURES DESCRIBED IN PARAS A,B, AND C ABOVE WILL BE PAID FOR FROM THE DM 10 BILLION "COUNTERCYCLICAL FUNDS" BEING HELD IN THE BUNDESBANK. THE FEDERAL GOVERNMENT MAY USE SOME DM 2.5 BILLION OF THE "COUNTERCYCLICAL FUNDS" TO COVER BUDGETARY DEFICITS.

4. THE CHANCELLOR EMPHASIZED THE UNDESIRABLE INFLUENCES OF THE INTERNATIONAL ECONOMIC DEVELOPMENTS OVER WHICH GERMANY HAS HAD NO CONTROL WHICH HAVE AFFECTED THE DOMESTIC GERMAN SITUATION UNFAVORABLY. NEVERTHELESS HE CONTRASTED THE RELATIVELY FAVORABLE GERMAN RECORD WITH THAT OF OTHER INDUSTRIAL COUNTRIES WHERE INFLATION RATES ARE MUCH HIGHER AND REAL WAGES HAVE BEEN ERODED AS COMPARED TO THE GAINS BEING MADE BY THE GERMAN WORKER IN THIS REGARD. HE EXPRESSED CERTAINTY THAT THE ECONOMIC UPSWING WILL COME BUT WARNED THAT IT WILL NOT BE AN OVERNIGHT PROCESS. IT WILL NOT BE IN THE SPRING BUT RATHER IN EARLY SUMMER WHEN THE ECONOMY REVIVES. HE SAID, HOWEVER, THAT THE UPSWING COULD BE UNDERMINED IF PEOPLE PANIC SINCE THIS WOULD HINDER INVESTMENT AND DAMPEN CONSUMER DEMAND. SCHMIDT MAINTAINED THAT PRICE STABILITY WAS IMPORTANT BUT THAT JOB SECURITY ALSO HAS PRIORITY. HE APPEALED TO THE OPPOSITION TO SUPPORT THE LEGISLATIVE PROGRAM REQUIRED TO CARRY OUT HIS GOVERNMENT'S PROGRAM.

5. SPEAKING ON BEHALF OF THE CDU/CSU OPPOSITION
FRANZ JOSEF STRAUSS CRITICIZED THE GOVERNMENT'S
PROGRAM ON MANY ACCOUNTS. HE THOUGHT THE
INDISCRIMINATE INVESTMENT BONUS PROGRAM WHICH
BENEFITS BOTH THE EFFICIENT AND INEFFICIENT ENTER-
PRISES WAS UNSOUND. NEVERTHELESS THE OPPOSITION
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LEADER STATED THAT, PENDING CLARIFICATION ON A
FEW POINTS, THERE WOULD BE NO ATTEMPT TO
BLOCK THE LEGISLATION. IT IS EXPECTED THAT THE
FINAL VOTE BY THE BUNDESRAT ON THE 3 LEGISLATIVE
BILLS INVOLVED IN THE PROGRAM WILL COME BY THE
END OF NEXT WEEK. END UNCLASSIFIED
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6. COMMENT: IT IS A MODEST PROGRAM THAT IS PROPOSED,
BUT WHICH FOR POLITICAL REASONS IS BEING PROMOTED
BY SOME GOVERNMENT SPOKESMEN AS BEING OF MUCH
GREATER POTENTIAL IMPACT THAN THE FACTS JUSTIFY.
THE EXPENDITURE PROGRAM OF DM 1.7 BILLION REPRESENTS
LESS THAN 0.2 PERCENT OF THE GNP. IN
JUDGING THE PROGRAM, HOWEVER, IT MUST BE BORNE
IN MIND THAT IT COMES ON TOP OF A VERY EXPANSIONARY
REGULARLY BUDGETED DEFICIT OF OVER DM 50 BILLION
(FOR ALL LEVELS OF GOVERNMENT) FORECAST FOR 1975.
END LIMITED OFFICIAL USE
HILLENBRAND

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